

IDAHO FORECAST DESCRIPTION

The Forecast Period is the First Quarter of 1999 to the Fourth Quarter of 2002

Idaho's economy is expected to slow, but not stop or decline, over the forecast period. Nonfarm employment grew by 2.5% in 1998. (Due to a reclassification of about 3,600 realtor jobs from covered employment to self-employed, the 1998 growth rate has been artificially lowered. Without the reclassification, Idaho nonfarm job growth would have been 3.2% in 1998.) While this was somewhat stronger than had been projected earlier, it was just below the national rate of 2.6%. This marks the first time since 1987 that Idaho nonfarm employment growth lagged its national counterpart. Most of last year's strength was in the services-producing sector, which grew by 2.9% and exactly matched the national pace. Idaho's goods-producing sector advanced 1.2% last year as this sector increased 1.3% nationally. The Gem State's goods-producing sector was weighed down by softness in mining and construction. Mining lost almost 200 jobs from 1997 to 1998. Construction employment was flat in 1998. In comparison, U.S. construction employment grew 4.9% last year. Manufacturing continued to buck this trend. While U.S. manufacturing employment managed to eke out just 0.3% growth, Idaho manufacturing employment rose 2.0%.

Idaho nominal personal income rose slightly faster than its national counterpart in 1998, 5.1% versus 5.0%. This was welcome news given the state's struggle with low agricultural commodity prices last year. On a nonfarm basis, Idaho nominal personal income actually grew a little faster than Idaho total personal income, 5.4% versus 5.1%. After adjusting for inflation, Idaho nonfarm personal income increased 4.6% in 1998 and Idaho total personal income grew 4.2%. National real total personal income advanced 4.2% last year.

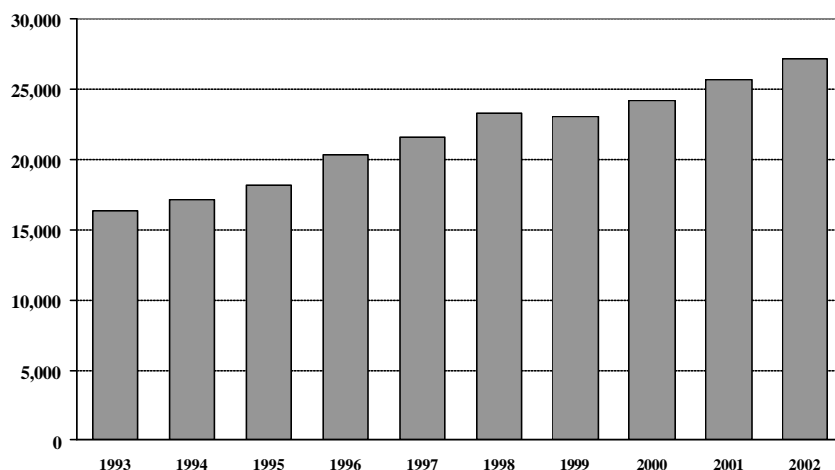
As was mentioned above, Idaho's economy is expected to slow over the forecast period. However, it should be added that it will not slow as soon as its national counterpart. For instance, Idaho nonfarm employment is forecast to rise 2.9% this year, 2.4% next year, 1.9% in 2001, and 2.0% in 2002. On the other hand, U.S. nonfarm employment should increase 2.1% in 1999, 1.6% in 2000, 1.0% in 2001, and 1.1% in 2002. Not surprisingly, Idaho real personal income grows faster than national real personal income also. Specifically, Idaho real total personal income is anticipated to rise 4.3% in 1999, 3.0% in 2000, 2.7% in 2001, and 2.8% in 2002. U.S. real total personal income is forecast to increase 3.5% this year, 2.6% next year, 1.9% in 2001, and 2.2% in 2002.

SELECTED IDAHO ECONOMIC INDICATORS

Electrical and Nonelectrical Machinery: The employment prospects for the state's electrical and nonelectrical manufacturing sector have been scaled back. In the April 1999 *Forecast* this sector's employment was forecast to grow from 23,461 in 1998 to 28,286 in 2002. In the current *Forecast* employment grows to 27,169 in 2002. There are two reasons for this change: the weaker-than-expected employment growth at the end of last year and beginning of this year and the slower growth in production of office and computer equipment. It was previously anticipated that this sector's employment would grow at about a 6.0% annual rate during both the last quarter of 1998 and first quarter of 1999. More recent data show that these projections were too optimistic. According to the new data, Idaho electrical and nonelectrical employment declined at nearly a 5.0% annual rate in the last quarter of 1998 and at a 2.2% annual pace in the first quarter of 1999. Thus, during the first quarter of this year, employment was already around 1,100 lower than had been previously forecast. The employment outlook is further tempered by the weaker demand for this sector's products due to the

anticipated slower growth in office and computer equipment manufacturing. It should be noted that this situation should improve during the latter years of the forecast as office and computer equipment manufacturing pick up speed. The outlook for memory prices has also grown more uncertain. Earlier this year it was believed that memory prices had bottomed out and were poised for a turnaround. However, some industry analysts now feel that the long-awaited price recovery has been delayed yet again.

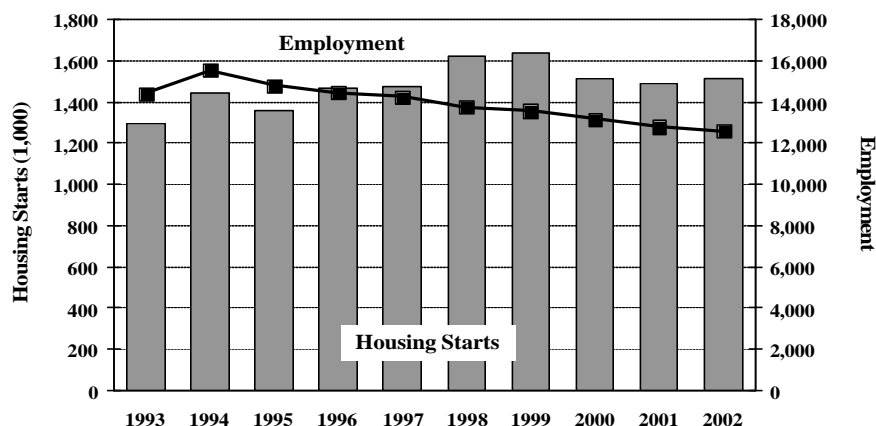
Idaho Electrical & Nonelectrical Employment



Lumber and Wood Products:

Idaho lumber and wood products employment has been falling since 1994 and is expected to decline over the forecast period. Nearly 1,800 jobs were lost from 1994 to 1998. Last year's 500-job drop was especially disappointing given the strong U.S. housing market. Many of 1998's losses resulted from mill closures. About 40 positions were lost when Boise Cascade closed its Horseshoe Bend Mill in the fall of 1998. About 50 workers lost their jobs when the Gem State Lumber Company Mill was salvaged. In November 1998, Crown Pacific announced that it would close its Colburn, Idaho sawmill in January 1999. Nearly 100 workers were affected by the closure. The problem was not demand but supply. In fact, U.S. consumption of softwood lumber and structural panels set new records during 1998, at 52.8 billion board feet and 35.2 billion square feet, respectively. Lumber prices usually mirror housing demand. Last year, however, prices fell. This anomaly—record consumption and declining prices—can be explained by looking closely at export markets. U.S. exports last year totaled just over a billion board feet, which was down 31% from 1997 and roughly half its 1994 level. Canadian overseas exports dropped 25% last year. The weakness in export markets reflected plunging demand in Asia. The natural consequence of reduced Asian demand was a North American market awash in supply—and prices declined accordingly. Looking forward, it is hard to see how U.S. prices can escape the fundamental weakness in Asian export markets. With the industry geared up to produce 20-25% more lumber than is being consumed in North America and Asia, prices will remain under pressure. This

Idaho Lumber & Wood Products Employment and U.S. Housing Starts



Sources: Standard and Poor's DRI and DFM

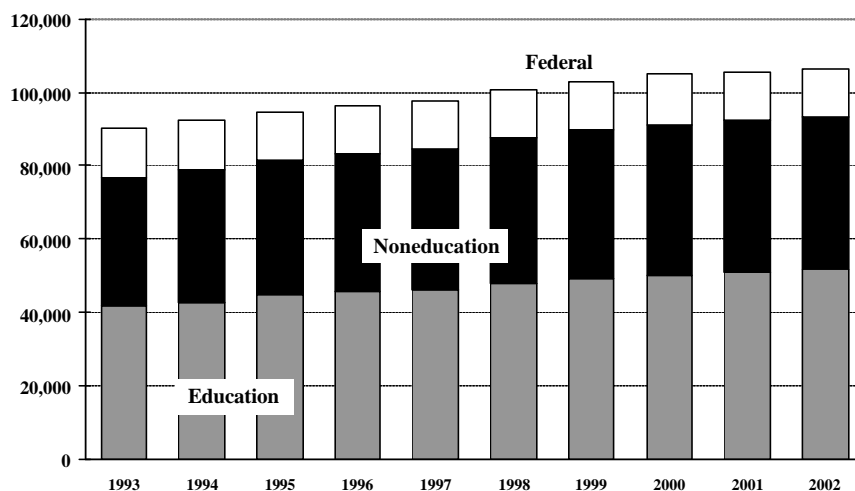
does not bode well for employment in the lumber and wood products sector in the short term. This sector's future is also haunted by the dwindling supply of timber from public lands. The Northwest has traditionally been dependent on timber from federal forests. In recent years the supply of logs from these public lands has fallen. The uncertainty of public timber supply should limit future investment and further dampen employment in the Gem State's lumber and wood products sector. From 1998 to 2002, Idaho lumber and wood products employment is projected to fall from 13,734 to 12,571.

Federal, State, and Local Governments:

Idaho state and local government employment growth should slow over the forecast period. Population and economic growth drive both of these sectors. For example, Idaho state and local employment combined advanced over 3.5% annually during the first half of this decade, which was more than twice the national average. During this same period, the Gem State's population grew as much as three times as fast as the U.S. population and its

economic growth eclipsed its national counterpart. However, both population and economic growth should be cooler in the second half of the 1990s than in the first half. In addition to the slower economic and population growth, laws aimed at limiting the growth of local government budgets will further temper government employment opportunities. Thus, Idaho state and local employment growth is forecast to taper off over the next few years. Specifically, it is 2.5% in 1999, 1.5% in 2000, 1.3% in 2001, and 1.2% in 2002. This is slightly slower than its national counterpart. This sector can be broken into its two components to gauge how well each will fare over the next few years. Education-related employment should grow slightly faster than the Idaho government average, around 2.0% compared to 1.6%. Idaho noneducation government employment should average about 1.0% per year. Federal austerity measures do not bode well for the level of federal government employment in Idaho. In fact, Idaho federal government employment is anticipated to decline in three of the next four years. The only growth year is 2000, when the hiring of Census 2000 workers temporarily boosts federal payrolls.

Idaho Government Employment

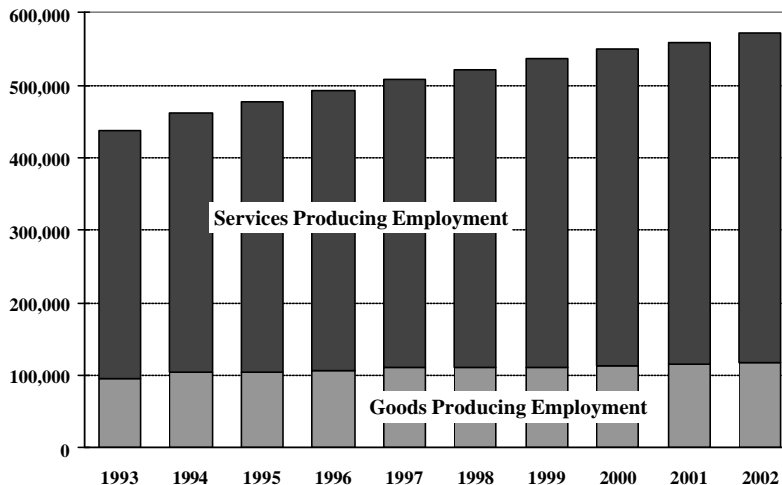


Services-Producing Industries: The services-producing sector is the state's largest and most diverse employment category. Accounting for about 410,000 jobs (or nearly 80% of total nonfarm employment), this category includes finance, insurance, and real estate; transportation, communications, and public utilities; trade; services; and government. Not surprisingly, this sector has been the major engine of growth over the last few years. Over the ten years from 1988 to 1998 Idaho has gained roughly 138,000 services-producing jobs, which was also about 80% of the total job gain for that period. Although this sector is diverse, it is dominated by two components: trade and services. Each of these categories had well over 100,000 jobs in 1998, and together they accounted for over 60% of the service-producing jobs. Both of these categories have grown strongly in recent years thanks to the twin influences of favorable cyclical and structural factors. One of the most significant trends has been the increasing number of women in the labor force. This has raised the demand for a wide range of goods and services, such as childcare and meals away from home. Another change agent has been the growing number of single-person and single-parent

households, due partly to the increasing number of persons delaying their first marriages and the greater number of divorced persons. In the future, the aging baby-boom generation increases the demand for services for the aged. In addition, this generation of older persons will probably be healthier than previous generations and will demand more recreational/leisure services. Structural changes will also include the way businesses operate. With the onset of the information economy, companies have more flexibility in locating

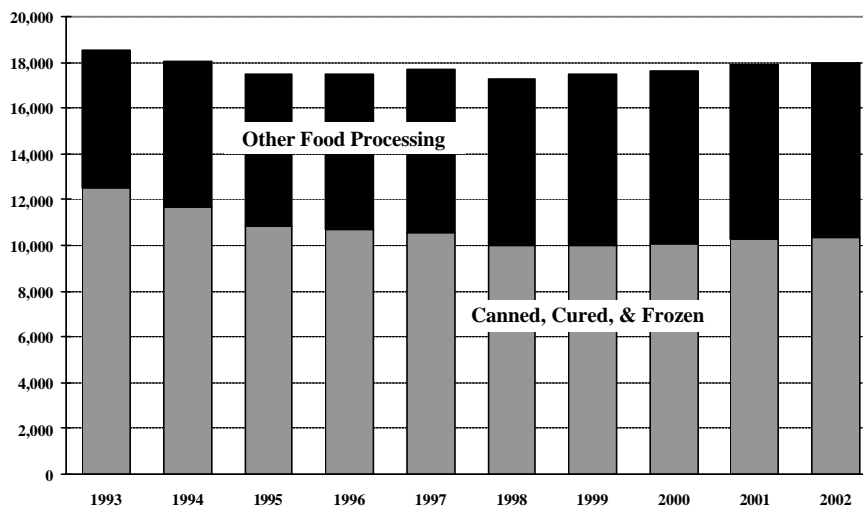
their operations. They are less tied to locating near their customer base, and can move to an area with a highly productive work force. Two examples of this are the Sears Regional Credit Center and the MCI Call Center. The communications component of service-related employment has gained from the opening of new call centers by GTE and US West. Ironically, manufacturing changes have also helped service employment. Instead of taking on new employees to meet peak production, many manufacturers now hire temporary workers from employment agencies. Since these persons are employees of the employment agency, they are classified as service employees even though they are performing manufacturing tasks. Trade sector employment has gained from the construction of several regional malls that not only cater to local customers but also attract out-of-state shoppers. It should be pointed out that non-economic factors also affect employment levels. For example, there has been a significant drop in the finance, insurance, and real estate category in 1998 compared to the previous year because the U.S. Bureau of Labor Statistics determined that 3,600 of the Idaho jobs reported as noncovered real estate should be classified as self-employed. This explains the nearly 10% employment drop from 1997 to 1998. Idaho services-producing employment is forecast to rise 3.5% in 1999, 2.7% in 2000, 2.0% in 2001, and 2.1% in 2002.

Idaho Nonfarm Employment



Food Processing: Idaho's largest nondurable manufacturing sector suffered a blow last fall when H.J. Heinz Company announced that it would consolidate Ore-Ida Foods Incorporated and Weight Watchers Gourmet Food Company into a new Pittsburgh-based entity called Heinz Frozen Food Company. This cost about 150 workers at the Weight Watchers Pocatello plant their jobs earlier this year. However, since then most of them have been recalled thanks to strong demand for the plant's products.

Idaho Food Processing Employment

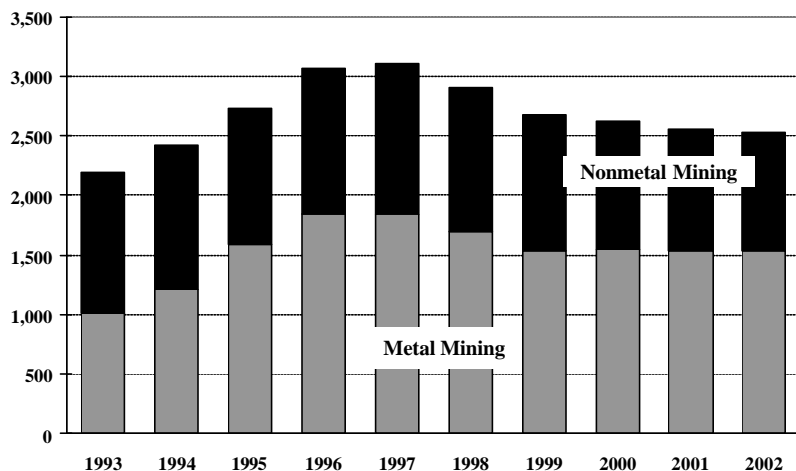


The state's dairy industry continues to expand. Darigold has announced that it will build a new plant in the Jerome Industrial Park. The plant will employ 15 to 18 workers per shift and run 24 hours per day, seven days a week. In addition to the Darigold plant, Magic Valley processors Jerome Cheese in Jerome and Avonmore West in Gooding are also expanding. In an effort to supply more milk to these manufacturers, a number of existing dairies are expanding and new dairies are being built. In other food processing news, Besnier Company out of Laval, France has acquired Simplot Dairy Products. The deal includes two cheese plants in Idaho. Employment at the plants is expected to remain constant. The Gem State's food processing employment is forecast to rise from 17,286 in 1998 to 17,968 in 2002.

Mining: The employment outlook for the state's mining sector has changed little since the last *Forecast* was published. In the April 1999 issue it was reported that this sector's employment would decline over the forecast period. This is still expected. This latest round of declines actually started last year, when the number of jobs dropped for the first time since 1993. One of the characteristics of the current decline is how widespread it is. Despite a booming national economy, metal prices have suffered from

a deflationary trend. Lower prices contributed to the decision to cut production and lay off 75 of the 250 employees at the Thompson Creek molybdenum mine and mill in Custer County. The Delemar Mine in Owyhee County fell victim to low gold prices. In addition to the problems caused by global economic weaknesses, the current deflationary environment is being fueled by other factors. First, gold and silver have traditionally been held as hedges against inflation. With inflation well under control, the prices for these precious metals no longer reflect this premium. In addition, the liquidation of governmental gold reserves puts further pressure on prices. This May the United Kingdom Treasury announced it would sell 415,000 kilograms of its gold holdings. This will be its most significant sale in almost 30 years. Mining employment will also be affected by the winding down of Meridian Gold's Beartrack Mine in Lemhi County. The number of workers at the mine will shrink from the current 150 to about 15 to 25 employees by the first quarter of 2001. The biggest cuts will take place in the middle of next year, when the company plans to reduce employment by 60 to 70%. Metal mining is not the only category to face challenges. In addition to the slowing economy, nonmetal mining employment will suffer under the additional weight of construction and agricultural problems. The expected flattening of the construction industry will hurt certain nonmetal mining sectors, such as rock quarrying, sand, and gravel. Agricultural woes will probably result in shrinking acreage and a reduction of fertilizer production. This will affect companies in Southeast Idaho where both phosphorus ore is mined and fertilizer is manufactured. For example, FMC has reduced its work force by 25 due to poor market conditions. Overall, total mining employment in the Gem State should drop from 2,903 in 1998 to 2,524 in 2002.

Idaho Mining Employment



Construction: Gem State construction employment is expected to grow much slower in the latter years of this decade than in the early years. Thanks to the building boom, construction employment averaged

over 10% growth annually from 1989 to 1995. Growth has been nowhere near that level since. In 1998, less than 30 jobs were added. This seems inconsistent with housing starts that jumped 14% that year. One possible explanation for this is the volatility of housing starts last year. Starts were strong during the first and last quarters of 1998, but weak in the second and third quarters. The outlook of declining housing starts does not bode well for employment in the state's construction sector, but commercial and

public works-related projects are expected to mitigate the housing-induced weakness. Idaho housing starts are forecast to go from 10,123 in 1998 to 9,758 in 2002, with nearly all the decline coming from multi-family starts. Under these conditions, Idaho construction employment is expected to rise just 2.1% in 1999, 0.9% in 2000, 0.8% in 2001, and remain flat in 2002.

Idaho Construction Employment and Housing Starts

